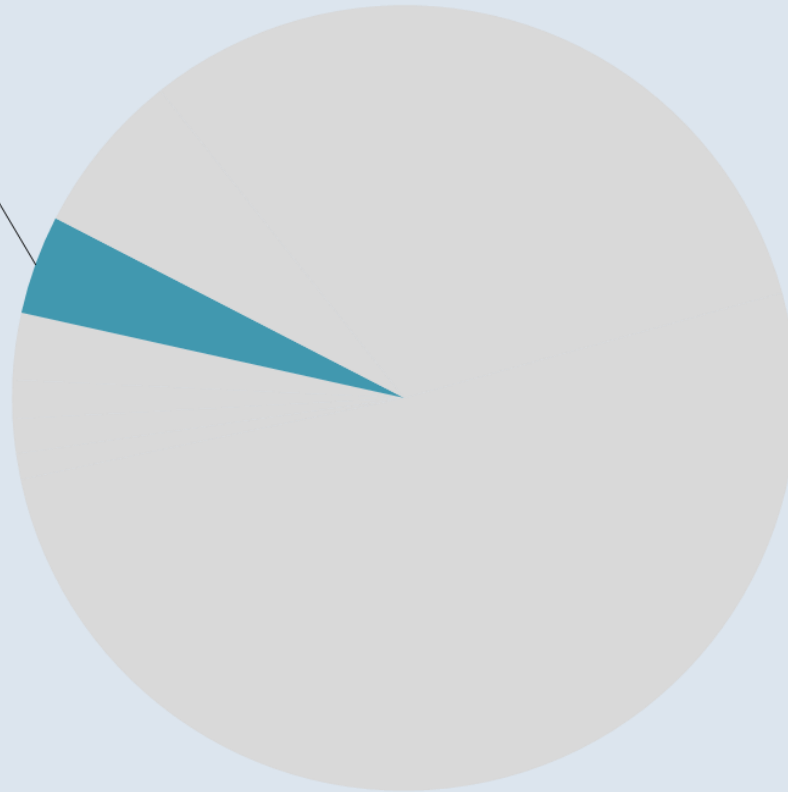


OVERVIEW OF FRANCHISE TAX

Joint House and Senate Finance, February 9, 2011
Jonathan Tart, Fiscal Research Division

Franchise
\$724



Franchise Tax

4% of General Fund Revenues

Franchise Tax

- Privilege tax for:
 - ▣ Privilege of engaging in business
 - ▣ The “enjoyment, under the protection of the laws of this State, of the powers, rights, privileges and immunities derived from the State by the form of” the existence of the business structure
 - ▣ The benefit and protection received from the government and laws of NC in doing business

Who pays Franchise Tax?

- ❑ C corporation
- ❑ S corporation
- ❑ Limited liability company (LLC) that elects to be taxed as a corporation under the IRC

Businesses Not Subject to the Tax

- ❑ Limited liability company (other than ones electing to be taxed as a corporation)
- ❑ Partnership
- ❑ Sole proprietor
- ❑ Insurance companies

Calculation of Tax

Tax rate applied to highest of three asset bases:

- Capital stock, surplus, and undivided profits apportioned to NC using the apportionment percentage determined for income tax
- Book value of NC real and tangible personal property, less outstanding debt created to acquire or improve the real property
- 55% of the appraised value of NC real and tangible personal property

Some Statistics from 2008 Tax Year

- Taxpayers with franchise taxable amount over \$40 million made up less than 1% of the returns, but paid 66% of the total tax
- Amounts due by companies is generally modest. 99% of taxpayers owe \$110,000 or less.

Rate of Tax

- \$1.50 per \$1,000 of taxable assets (.0015)
- \$35 minimum tax
- \$75,000 maximum tax for holding companies – those that receive at least 80% of income from subsidiaries

Utility Franchise Tax

- Applies instead of the general franchise tax
- Calculated on gross receipts
- Applies to:
 - ▣ Electric power company – 3.22% rate
 - ▣ Water utility company - 4% rate
 - ▣ Sewer utility company – 6%
- Tax on electric power companies is shared with cities

Questions?

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